

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Brockton
Contributory Retirement System
For the Four-year Period
January 1, 2000 - December 31, 2003
PERAC 03: 10-023-11**

TABLE OF CONTENTS

Letter from the Executive Director.....	1
Explanation of Findings and Recommendation.....	2
Statement of Ledger Assets and Liabilities.....	7
Statement of Changes in Fund Balances.....	8
Statement of Income.....	9
Statement of Disbursements.....	10
Investment Income.....	11
Statement of Allocation of Investments Owned.....	12
Supplementary Investment Regulations.....	13
<u>Notes to Financial Statements:</u>	
Note 1 – The System.....	18
Note 2 – Significant Accounting Policies.....	19
Note 3 – Supplementary Membership Regulations.....	20
Note 4 – Administration of the System.....	21
Note 5 – Actuarial Valuation and Assumptions.....	22
Note 6 – Membership Exhibit.....	23

March 10, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Brockton** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2000** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report. Please note the directive on page 4 relative to restoring a member to service.

In closing, I acknowledge the work of examiner Mary Dundas who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Brockton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

1. Cash Reconciliation:

A review of the bank reconciliations for 12/31/03 revealed one item unpaid for more than six months. This outstanding item equaled approximately \$1,150.

Recommendation:

Any uncashed items older than six months should be researched, so that the proper voiding and recording of these items can be completed.

Board Response:

The check in question was being held at the City of Brockton Treasurer's Office at the request of the Brockton Retirement Board awaiting a death certificate. The check (10893 for \$1,148.53) was released on February 20, 2004 and cashed March 2, 2004.

2. Appropriations:

The System does not receive its appropriation payments according to the schedule set by PERAC, wherein the due date is set at July 1st. The Brockton Housing Authority makes monthly payments six months late. The Private Industry Council paid its appropriation six to ten months late during the four years reviewed.

Recommendation:

The System should make every effort to ensure the timely collection of all appropriations. The Board may want to consider requesting a change in the System's assumed funding payment date from July 1 to a later date. Alternatively, the Housing Authority and Private Industry Council's appropriations should be adjusted with interest to reflect the dates payments are actually made.

Board Response:

We discussed this matter with the actuary at PERAC. The plan is to have the actuary developing the funding schedule to adjust the payment date for the City to August 1. The payment dates for BHA (monthly installments) and PIC (December 31) will remain the same but will be interest-adjusted by the PERAC actuary so that all units are treated equally.

3. Membership:

a. Certain payments classified as regular compensation and made to various City employees possibly violate sections of G.L. c. 32, § 1 and 840 CMR 15.03.

b. Employees of the Brockton Emergency Management Agency (BEMA) are not currently members of the System, having formally rejected membership.

c. The Board does not receive adequate information with which to ascertain the accuracy of members' deductions. Reports lack fundamental detail as to what pay categories are considered

Brockton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

subject or not subject to retirement deductions and are insufficient to determine that contributions are only taken from regular compensation.

d. Two disability retirees of the Brockton Retirement System were reexamined and found fit to return to active service during the audit period. One member has since been reemployed; however his retirement contributions and creditable service are not properly accounted for, as they are not included with those of other members of the System. Additionally, his previous deductions and interest have not been transferred from the annuity reserve fund back to the annuity savings fund of the System. The other member has not been reemployed to date.

Recommendation:

a. PERAC is currently reviewing City contracts in an effort to determine whether payments reported as regular compensation meet all of the requirements to be classified as such.

Board Response:

We await the results of PERAC's review

b. As appointed City employees, BEMA staff do not have the option to waive membership in the retirement system. Should their positions meet the eligibility requirements of the Board, as they have in the past, then these employees must be made members of the City of Brockton Retirement System.

Board Response:

In a letter to the Board dated November 17, 2004, Morton Schleffer, Director of BEMA, stated that neither he nor any of his employees works more than 19.5 hours a week. Therefore, they are not eligible to be members of the retirement system.

c. The Board must initiate a system of obtaining detailed payroll information from each unit, which shall include the following member information:

1. Name,
2. Social Security or employee number,
3. Membership date,
4. Contribution rate,
5. Compensation by type: total, regular, overtime, other,
6. Regular and 2% incremental deductions,
7. Any other information deemed appropriate.

This data must be routinely reviewed by the Board to ensure that proper deductions are being withheld.

Brockton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

An assessment of the various pay categories should be performed in conjunction with payroll personnel from each department to further ensure that the appropriate pay types are considered regular compensation.

The Executive Director should annually receive a listing of personnel who do not contribute to the Retirement System to verify accuracy in that respect.

Board Response:

This recommendation and finding will be submitted to the City Auditor and the Mayor for resolution. The City has refused to provide the Board payroll registers in the past. The City Auditor, at the Board meeting on January 28, 2005, said he would provide all earnings information to the retirement board.

d. The Board must comply with G.L. c. 32, § 8, which regulates the reactivation of members and their accounts upon their return to work from disability retirement. The Board is ordered to immediately begin proper accounting of the member's contributions and creditable service. In addition, the member's previous deductions and interest should be transferred back to the Annuity savings Fund. PERAC will continue to monitor the status of the second member, originally approved for restoration to service in April of 2003 and most recently reconfirmed in August of 2004. PERAC requires notification that such members have returned to active membership in the System.

Board Response:

The Board has not changed its August 27, 2003 decision not to recognize the reactivated employee as a member. The second member has not yet been rehired by the City.

Final determination:

The Brockton Retirement Board is ordered to restore the member to service with all the rights and privileges of active membership.

4. Current Retirees:

a. As reported in the last audit, the Board calculates the three-year average salary from recorded deduction amounts. Because the Board does not receive detailed payroll information, the accuracy of the deductions is not confirmed. This allows for the possibility of generating an incorrect average salary. No department-head approval or verification of salary information is obtained in an effort to prevent miscalculations.

b. An ongoing issue involves payments made to the widow of a member who was approved for accidental disability retirement in March of 2004. The widow, as beneficiary, has been receiving part of the deceased member's Option C retirement allowance, which allowance was

Brockton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

approved under G.L. c. 32, § 12(2)(c), as well as the accidental death benefit allowable under G.L. c. 32, § 9, although, contrary to Board correspondence, this benefit has not been approved by PERAC. As the beneficiary of an Option C retiree, the widow is not entitled to a return of the member's annuity savings balance as provided for in G.L. c. 32, § 11, since said provision applies to members in service.

Recommendation:

a. The Board must receive detailed payroll information in order to ensure proper calculation of a member's average salary.

Board Response:

This recommendation and finding will be submitted to the City Auditor and the Mayor for resolution. The City has refused to provide the Board payroll registers in the past. The City Auditor, at the Board meeting on January 28, 2005, said he would provide all earnings information to the retirement board.

b. The Board must determine whether the member in question died as a member in service or as a retired member. Upon such determination, it must then adhere to the applicable regulations cited above. If the Board determines that the member was retired on the date of his death, as suggested by the application for accidental disability retirement, then the Board must take immediate reasonable steps to recoup the payment of the accumulated deductions and the widow's Option C benefit must be corrected to reflect the approval issued by PERAC on March 31, 2004. The Board may pay an accidental death benefit upon receipt of PERAC's approval. If the Board determines that the member was in service at the time of his death, then the Board must take immediate reasonable steps to recoup those amounts paid to her as an Option C beneficiary. Again, the Board may pay an accidental death benefit upon receipt of PERAC's approval. PERAC will continue to monitor this matter.

Board Response:

The Board has initiated recoupment of the lump sum payment and corrected the Option C benefit.

Final determination:

The Board should so notify the Commission when such notice is complete.

5. Minutes:

a. Board members are not presented a trial balance of the general ledger or cash reconciliations to review each month.

b. Minutes books are not permanently bound.

Brockton Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

Recommendation:

a. In order to comply with 840 CMR 25.31(6), the minutes should note that the Board is presented with a monthly trial balance and cash reconciliations for review.

Board Response:

The monthly trial balance and cash reconciliations are made available for Board review at each meeting and noted in the meeting minutes.

b. Minutes of meetings must be maintained in a manner that ensures their completeness, creates a permanent record, and leaves no question as to their accuracy.

Board Response:

Upon completion of the scanning of the minutes of Board meeting for electronic backup, the hard copies will be professionally bound.

Final Determination

PERAC auditors will follow up in six months to ensure that the appropriate actions have been taken regarding all audit findings.

Brockton Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2003	2002	2001	2000
Cash	4,349,512	4,958,213	16,478,665	4,722,416
Short Term Investments	1,413,503	793,894	0	0
Fixed Income Securities (at book value)	50,321,481	54,442,785	55,226,842	54,868,178
Equities (at market value)	82,573,815	60,539,554	73,500,146	83,018,848
Pooled Short Term Funds	0	0	0	0
Pooled Real Estate Funds	0	0	0	0
Pooled Venture Capital Funds	18,504,278	14,165,757	16,052,075	19,646,481
International Investments	6,349,643	0	0	0
Treasures Master Trust	0	0	0	0
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	14,173,267	14,023,776	11,071,855	11,270,676
Pooled Alternative Investments	9,409,282	7,584,197	8,544,349	9,958,572
Pooled Real Estate Funds	11,875,969	11,060,824	12,116,120	14,097,271
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	835,034	823,404	899,610	1,057,241
Accounts Receivable	9,181,077	595,622	1,543,863	1,942,751
Accounts Payable	701,148	486,119	3,512,448	2,253,938
TOTAL	<u>\$208,285,714</u>	<u>\$168,501,905</u>	<u>\$191,921,077</u>	<u>\$198,328,497</u>
FUND BALANCES				
Annuity Savings Fund	53,542,708	49,943,787	46,931,306	43,906,253
Annuity Reserve Fund	21,547,811	21,005,982	20,276,461	20,335,414
Pension Fund	11,147,044	14,186,137	18,379,200	21,819,741
Military Service Fund	30,903	15,791	19,748	19,379
Expense Fund	0	0	0	0
Pension Reserve Fund	122,017,247	83,350,207	106,314,362	112,247,710
TOTAL	<u>\$208,285,714</u>	<u>\$168,501,905</u>	<u>\$191,921,077</u>	<u>\$198,328,497</u>

Brockton Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$41,478,615	\$19,587,118	\$25,192,296	\$35,708	\$0	\$100,739,537	\$187,033,275
Receipts	5,415,076	593,488	14,229,362	246	1,912,631	11,508,172	\$33,658,976
Interfund Transfers	(2,425,101)	2,441,676		(16,575)			(\$0)
Disbursements	562,337	2,286,868	17,601,918	0	1,912,631	0	\$22,363,753
Ending Balance (2000)	\$43,906,253	\$20,335,414	\$21,819,741	\$19,379	\$0	\$112,247,710	\$198,328,497
Receipts	5,934,050	593,488	14,370,169	368	1,651,572	(5,933,347)	\$16,616,300
Interfund Transfers	(1,748,669)	1,748,669					\$0
Disbursements	1,160,328	2,401,111	17,810,709	0	1,651,572	0	\$23,023,720
Ending Balance (2001)	\$46,931,306	\$20,276,461	\$18,379,200	\$19,748	\$0	\$106,314,362	\$191,921,077
Receipts	6,176,319	593,488	14,920,826	218	1,678,976	(22,964,156)	\$405,671
Interfund Transfers	(2,662,893)	2,667,068		(4,175)			\$0
Disbursements	500,945	2,531,034	19,113,889	0	1,678,976	0	\$23,824,843
Ending Balance (2002)	\$49,943,787	\$21,005,982	\$14,186,137	\$15,791	\$0	\$83,350,207	\$168,501,905
Receipts	6,694,300	628,953	17,488,461	215	1,509,689	38,686,022	\$65,007,641
Interfund Transfers	(2,559,409)	2,563,493		14,898		(18,982)	\$0
Disbursements	535,971	2,650,617	20,527,555	0	1,509,689	0	\$25,223,832
Ending Balance (2003)	\$53,542,708	\$21,547,811	\$11,147,044	\$30,903	\$0	\$122,017,247	\$208,285,714

Brockton Retirement System

STATEMENT OF RECEIPTS

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,				
	2003	2002	2001	2000
Annuity Savings Fund:				
Members Deductions	5,844,450	5,304,892	4,850,832	4,393,312
Transfers from other Systems	231,433	92,068	114,260	25,679
Member Make Up Payments and Redeposits	137,455	146,462	163,121	164,322
Investment Income Credited to Member Accounts	480,962	632,896	805,837	831,763
Sub Total	<u>\$6,694,300</u>	<u>\$6,176,319</u>	<u>\$5,934,050</u>	<u>\$5,415,076</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>\$628,953</u>	<u>\$593,488</u>	<u>\$593,488</u>	<u>\$593,488</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	81,703	115,186	(228)	259,864
Received from Commonwealth for COLA and Survivor Benefits	769,405	973,203	1,030,137	1,101,341
Pension Fund Appropriation	16,637,353	13,832,436	13,340,260	12,868,157
Sub Total	<u>\$17,488,461</u>	<u>\$14,920,826</u>	<u>\$14,370,169</u>	<u>\$14,229,362</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	215	218	368	246
Sub Total	<u>\$215</u>	<u>\$218</u>	<u>\$368</u>	<u>\$246</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	1,509,689	1,678,976	1,651,572	1,912,631
Sub Total	<u>\$1,509,689</u>	<u>\$1,678,976</u>	<u>\$1,651,572</u>	<u>\$1,912,631</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	46,913	41,087	40,782	46,615
Pension Reserve Appropriation	4,000	4,000	2,400	110,300
Interest Not Refunded	7,012	6,041	5,192	11,921
Excess Investment Income	38,628,097	(23,015,284)	(5,981,721)	11,339,337
Sub Total	<u>\$38,686,022</u>	<u>(\$22,964,156)</u>	<u>(\$5,933,347)</u>	<u>\$11,508,172</u>
TOTAL RECEIPTS	<u>\$65,007,641</u>	<u>\$405,671</u>	<u>\$16,616,300</u>	<u>\$33,658,976</u>

Brockton Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,				
Annuity Savings Fund:	2003	2002	2001	2000
Refunds to Members	519,586	374,493	356,917	305,469
Transfers to Other Systems	16,385	126,452	803,410	256,868
Sub Total	<u>\$535,971</u>	<u>\$500,945</u>	<u>\$1,160,328</u>	<u>\$562,337</u>
Annuity Reserve Fund:				
Annuities Paid	2,569,962	2,425,025	2,309,957	2,260,349
Option B Refunds	80,655	106,009	91,153	26,518
Sub Total	<u>\$2,650,617</u>	<u>\$2,531,034</u>	<u>\$2,401,111</u>	<u>\$2,286,868</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	12,780,874	12,047,528	11,147,418	10,676,791
Survivorship Payments	1,060,918	1,043,113	954,249	926,506
Ordinary Disability Payments	311,007	313,021	326,077	305,926
Accidental Disability Payments	5,169,507	4,475,317	4,428,052	4,277,810
Accidental Death Payments	837,671	863,215	837,243	774,312
Section 101 Benefits	137,787	132,461	117,338	114,512
3(8)(c) Reimbursements to Other Systems	229,791	239,234	333	526,060
State Reimbursable CoLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0	0
Sub Total	<u>\$20,527,555</u>	<u>\$19,113,889</u>	<u>\$17,810,709</u>	<u>\$17,601,918</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Expense Fund:				
Board Members' Stipends	16,500	16,250	16,500	15,058
Salaries	216,112	321,720	279,270	215,386
Legal Expenses	20,878	25,160	8,863	11,863
Medical Expenses	0	65	0	0
Travel Expenses	7,828	13,258	9,425	3,777
Administrative Expenses	103,655	93,167	101,115	94,446
Furniture and Equipment	19,819	9,323	6,098	10,212
Management Fees	836,635	944,993	945,343	1,290,059
Custodial Fees	168,263	134,621	165,541	140,580
Consultant Fees	120,000	120,419	119,417	131,250
Sub Total	<u>\$1,509,689</u>	<u>\$1,678,976</u>	<u>\$1,651,572</u>	<u>\$1,912,631</u>
TOTAL DISBURSEMENTS	<u>\$25,223,832</u>	<u>\$23,824,843</u>	<u>\$23,023,720</u>	<u>\$22,363,753</u>

Brockton Retirement System

INVESTMENT INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
Investment Income Received From:				
Cash	43,457	104,689	279,368	220,367
Short Term Investments	0	1,448	0	71,887
Fixed Income Securities	3,595,641	3,995,081	3,816,189	3,548,475
Equities	837,592	702,596	682,049	625,289
Pooled or Mutual Funds	2,224,610	3,100,571	(409,295)	849,838
Commission Recapture	315,937	47,972	108,974	118,771
TOTAL INVESTMENT INCOME	<u>7,017,237</u>	<u>7,952,358</u>	<u>4,477,286</u>	<u>5,434,627</u>
Plus:				
Increase in Amortization of Fixed Income Securities	1,670,837	0	0	0
Realized Gains	14,319,122	5,970,672	12,335,210	27,538,950
Unrealized Gains	30,497,589	10,134,755	10,780,051	26,670,022
Interest Due and Accrued on Fixed Income Securities - Current Year	835,034	823,404	899,610	1,057,241
Sub Total	<u>47,322,581</u>	<u>16,928,830</u>	<u>24,014,871</u>	<u>55,266,213</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	0	0
Paid Accrued Interest on Fixed Income Securities	500,238	338,730	344,679	367,442
Realized Loss	7,738,115	29,626,056	20,621,961	15,883,557
Unrealized Loss	4,030,144	14,126,497	9,398,732	28,203,272
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	823,404	899,610	1,057,241	511,864
Sub Total	<u>13,091,901</u>	<u>44,990,893</u>	<u>31,422,612</u>	<u>44,966,134</u>
NET INVESTMENT INCOME	<u>41,247,916</u>	<u>(20,109,705)</u>	<u>(2,930,456)</u>	<u>15,734,706</u>
Income Required:				
Annuity Savings Fund	480,962	632,896	805,837	831,763
Annuity Reserve Fund	628,953	593,488	593,488	593,488
Military Service Fund	215	218	368	246
Expense Fund	1,509,689	1,678,976	1,651,572	1,912,631
TOTAL INCOME REQUIRED	<u>2,619,819</u>	<u>2,905,578</u>	<u>3,051,265</u>	<u>3,338,128</u>
Net Investment Income	<u>41,247,916</u>	<u>(20,109,705)</u>	<u>(2,930,456)</u>	<u>15,734,706</u>
Less: Total Income Required	<u>2,619,819</u>	<u>2,905,578</u>	<u>3,051,265</u>	<u>3,338,128</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$38,628,097</u>	<u>(\$23,015,284)</u>	<u>(\$5,981,721)</u>	<u>\$12,396,577</u>

Brockton Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*	
Cash	\$4,349,512	2.19%	100	
Short Term	1,413,503	0.71%	100	
Fixed Income	50,321,481	25.29%	30-80	
Equities	82,573,815	41.50%	50	
Pooled Short Term Funds	0	0.00%		
Pooled Real Estate Funds	0	0.00%		
Pooled Venture Capital Funds	18,504,278	9.30%	5	
International Investments	6,349,643	3.19%	10	
Treasures Master Trust	0	0.00%		
Pooled International Fixed Income Funds	0	0.00%		
Pooled Global Fixed Income Funds	14,173,267	7.12%	15	
Pooled Alternative Investments	9,409,282	4.73%		
Pooled Real Estate Funds	11,875,969	5.97%	10	
Pooled Domestic Balanced Funds	0	0.00%		
Pooled International Balanced Funds	0	0.00%		
PRIT Cash Fund	0	0.00%		
PRIT Core Fund	0	0.00%		
GRAND TOTALS	<u>\$198,970,751</u>	<u>100.00%</u>		

For the year ended December 31, **2003**, the rate of return for the investments of the **Brockton** Retirement System was 25.20%. For the five-year period ended December 31, **2003**, the rate of return for the investments of the **Brockton** Retirement System averaged 6.33%. For the nineteen-year period ended December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Brockton** Retirement System was 11.11%.

Brockton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

The **Brockton** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

January 4, 1989

- 20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short-term obligations.
- 20.07(6) Sales of equity investments shall not exceed 200% of the average market value of all equity holdings in any twelve-month period.

June 15, 1989

- 20.04(6) American Depository Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that all such investments not exceed 5% of the total book value of equity investments.

August 2, 1989

- 20.08(e) Enrollment in the Securities Lending Program offered by Boston Safe Deposit and Trust Company.

September 28, 1989

- 20.06(10) For the 50% of the fixed income portfolio that is managed by Loomis, Sayles & Co.:
75% of fixed income investments shall carry a quality rating of A or equivalent or higher and all fixed income investments shall have a minimum quality rating of BAA or equivalent, however, 10% of fixed income investments may have a minimum quality rating of B.

June 15, 1990

- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

February 11, 1993

- 20.07(9) Real estate investments shall not exceed 10% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:
 - (a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and
 - (b) such trustees or general partners retain authority in the decision making process, and
 - (c) should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

Brockton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

November 7, 1994

- 20.03(1) Equity investments shall not exceed 65% of the total portfolio valued at market, including international equities which shall not exceed 15% of the total portfolio valued at market. (Subject to CMR 20.03(4)).
- 20.03(4) International investments shall not exceed 25% of the total portfolio valued at market.

January 25, 1996

840 CMR 21.00: Prohibited Investments

(3) Futures Contracts other than as follows:

(a) Forward Currency Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.

(b) Forward Currency Contracts may be written against securities in the international portfolio to a maximum of twenty-five percent (25%) of the international portfolio's non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

March 21, 1996

- 20.03(2) At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market and including international fixed income investments which shall be limited to 15% of the total portfolio valued at market. (Subject to CMR 20.03(4)).

October 14, 1997

- 20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment, shall be considered a separate asset class, and provided further that:
- (a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.
- 20.90(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States and Asia.

Brockton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

October 14, 1997 (continued)

20.90(3) All venture capital investments shall be made in companies which have their principal places of business in the United States and Asia.

March 15, 2000

16.08 In accordance with PERAC Investment Guideline 99-3, the Brockton Retirement Board may invest in Ascent Venture Partners III, L.P. The board has had a positive relationship with the vendor in its investment in Ascent Venture Partners II, L.P. and has submitted the required documentation relative to this new investment.

November 15, 2001

Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c). This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Brockton Retirement Board's request as it applies to 840 CMR 17.04(1)(c) is approved.

Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Brockton Retirement Board's request as it applies to 840 CMR 17.04(6).

Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Brockton Retirement Board's request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

Brockton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

November 15, 2001 (continued)

Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non-U.S. currency.

August 13, 2002

Notwithstanding the provisions of the Public Employee Retirement Administration Commission Regulations, the Brockton Retirement Board may invest funds of the Brockton Contributory Retirement System (the “System”) with the real estate investment fund known as Realty Associates Fund VI Corporation (the “Fund”), and while the assets of the System are so invested,

- (i) the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System’s interest in the Fund but not any underlying assets of the Fund or the operating partnership in which the Fund is invested (the “OP”); provided that, at all times, the Fund and the OP qualify as “venture capital operating companies” or “real estate operating companies” within the meaning of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the regulations promulgated thereunder, or the assets of the Fund and the OP otherwise would not be treated as plan assets under ERISA; and

Brockton Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

August 13, 2002 (continued)

- (ii) the limitation set forth in 840 CMR 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP.

December 8, 2003

16.08 In accordance with PERAC Investment Guideline 99-3, the Brockton Retirement Board may invest in Ascent Venture Partners IV, L.P. The Board has had a satisfactory relationship with Ascent Venture Partners through investment in the firm's two prior partnerships. The Board seeks to maintain its targeted level of investment in venture capital as two of its current investments in this asset class are in the process of returning capital.

Brockton Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Brockton** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.

Brockton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM (continued)

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Brockton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (continued)

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Brockton** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

June 17, 1991

The Board voted unanimously to grant full-time creditable service to all employees working twenty hours or more a week, effective July 1, 1991.

At the present time the members who work twenty hours a week have their time prorated and receive 2/3 creditable service toward retirement for every year worked.

Brockton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon Human Resources & Investor Solutions** as of **January 1, 2004**. (These are draft numbers and will not be finalized.)

The actuarial liability for active members was	\$161,045,569
The actuarial liability for retired members and beneficiaries and inactive members was	<u>198,779,397</u>
The total actuarial liability was	359,824,966
System assets as of that date were	<u>208,285,714</u>
The unfunded actuarial liability was	<u>\$151,539,252</u>
The ratio of system's assets to total actuarial liability was	57.9%
As of that date the total covered employee payroll was	\$67,054,199

The normal cost for employees on that date was 8.06% of payroll

The normal cost for the employer was 5.50% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: varies by service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$ 208,285,714	\$ 359,824,966	\$ 151,539,252	57.9%	\$ 67,054,199	226.0%
1/1/2003	\$ 168,501,905	\$ 342,625,077	\$ 174,123,172	49.2%	\$ 65,031,565	267.8%
1/1/2002	\$ 191,921,077	\$ 326,280,052	\$ 134,358,975	58.8%	\$ 58,793,341	228.5%
1/1/2001	\$ 198,328,497	\$ 297,018,613	\$ 98,690,116	66.8%	\$ 56,667,123	174.2%
1/1/2000	\$ 187,033,275	\$ 283,821,199	\$ 96,787,924	65.9%	\$ 54,577,351	177.3%

Brockton Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	55	37	43	54	42	44	37	32	37	29
Ordinary Disability	3	1	1	1	1	0	1	1	0	0
Accidental Disability	8	5	5	6	2	9	5	2	1	11
Total Retirements	66	43	49	61	45	53	43	35	38	40
Total Retirees, Beneficiaries and Survivors	1,147	1,162	1,175	1,209	1,222	1,276	1,282	1,229	1,281	1,274
Total Active Members	1,302	1,383	1,456	1,588	1,648	1,647	1,701	1,822	1,907	1,921
Pension Payments										
Superannuation	\$6,944,563	\$7,368,500	\$7,701,345	\$8,844,798	\$9,132,508	\$9,677,180	\$10,676,791	\$11,147,418	\$12,047,528	\$12,780,874
Survivor/Beneficiary Payments	687,529	692,630	713,697	741,022	3,780,964	3,947,316	926,506	954,249	1,043,113	1,060,918
Ordinary Disability	301,880	326,209	306,748	312,505	327,615	311,325	305,926	326,077	313,021	311,007
Accidental Disability	3,083,600	3,211,833	3,414,030	3,697,102	742,020	759,028	4,277,810	4,428,052	4,475,317	5,169,507
Other	<u>996,292</u>	<u>1,058,190</u>	<u>1,086,422</u>	<u>1,161,793</u>	<u>1,192,398</u>	<u>1,204,471</u>	<u>1,414,884</u>	<u>954,914</u>	<u>1,234,910</u>	<u>1,205,249</u>
Total Payments for Year	<u>\$12,013,864</u>	<u>\$12,657,362</u>	<u>\$13,222,242</u>	<u>\$14,757,220</u>	<u>\$15,175,505</u>	<u>\$15,899,321</u>	<u>\$17,601,918</u>	<u>\$17,810,709</u>	<u>\$19,113,889</u>	<u>\$20,527,555</u>